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RUEHBO/AMEMBASSY BOGOTA 4442
RUEHBR/AMEMBASSY BRASILIA 8337
RUEHBU/AMEMBASSY BUENOS AIRES 5566
RUEHCV/AMEMBASSY CARACAS 2792
RUEHPE/AMEMBASSY LIMA 2976
RUEHMD/AMEMBASSY MADRID 3592
RUEHMN/AMEMBASSY MONTEVIDEO 4850
RUEHQT/AMEMBASSY QUITO 5426
RUEHSG/AMEMBASSY SANTIAGO 0033
RUEHRI/AMCONSUL RIO DE JANEIRO 0955
RUEHSO/AMCONSUL SAO PAULO 2146
RUEHUB/USINT HAVANA 0537
RHMFISS/HQ USSOUTHCOM MIAMI FL
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C O N F I D E N T I A L SECTION 01 OF 02 LA PAZ 002524

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [EPET](#) [BL](#)

SUBJECT: BOLIVIAN GAS: SHORTAGES OF LPG TO COME?

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 (b) and (d).

Summary

11. (U) The Liquefied Petroleum Gas (LPG) market in Bolivia is a good test case of what is happening in the overall hydrocarbon sector. Prices are held artificially low, demand is stimulated, supply and investment decrease, and the growing threat of shortages presage possible political turmoil. End Summary.

LPG - What is it?

12. (U) When natural gas comes out of the ground it is a mixture of several substances. Methane (83%) is the most common and is used as 'natural gas'. However, ethane (7%), propane (4%) and butane (3%) also accompany methane to the service. Liquefied Petroleum Gas (LPG) is composed principally of propane and butane and, thus, makes up around 7% of 'natural gas' production. In Bolivia, LPG is produced at four facilities located directly within the major natural gas fields and at two refineries in Santa Cruz and Cochabamba. (Note: LPG can also be produced during the refining of liquid petroleum. End note.)

Supply and Demand

13. (C) Since 2000, consumption of LPG in Bolivia has been growing at an annual rate of about five percent and has risen from 732 Metric Tons per Day (MTD) in 2000 to 973 MTD in 12006. Prices, which have been frozen for the last decade, have significantly stimulated demand but have also created growing market distortions. In Bolivia, the standard 10kg canister of gas costs around US\$2.50. That same canister

costs double in Argentina, four times as much in Peru, and nearly five times as much in Brazil or Chile. Needless to say, despite a ban on all LPG exports (in effect since 2004), smuggling may be pushing up demand. Jorge Martignoni, Vice President of Vintage Petroleum, estimates that contraband boosts demand by around 2-3%. Additionally, despite being dangerous, cars that have been modified to run on Vehicular Natural Gas (VNG) can also run on LPG. Jorge Martignoni believes that up to 15% of LPG demand goes to fueling automobiles; at US\$2.50 for a 10kg canister many clearly believe it is worth the risk.

14. (U) Capped prices unfortunately do not only stimulate demand; they depress supply. Bolivian production of LPG peaked in 2002 when domestic supply hit 1227 MTD. By 2006, that figure had fallen to only 918 MTD and estimates predict that Bolivia will produce less LPG than it consumes in 2007. These falling production figures are a reality despite technological advances in the two refineries. These advances boosted production of LPG from liquid petroleum from 142 MTD in 2002 to 205 MTD in 2006. These gains cannot, however, offset the declining production figures at the four facilities located within the gas fields. Production from these plants totaled 1085 MTD in 2002 but fell to only 713 MTD in 2006.

Comment

15. (C) The LPG market provides an example of how price controls are affecting the hydrocarbon industry in Bolivia.

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Market manipulations are stimulating demand, encouraging contraband and dangerous practices, and dampening investment and supply. The problem was not wholly created by the current administration, but they are the ones that will most likely have to deal with it. If the imbalance between supply and demand continues to grow, Bolivian consumers will not be shy about expressing their discontent. Currently, the national oil company YPF is choosing to send more LPG to La Paz than to Santa Cruz. If shortages grow, distribution of scarce resources through political reasoning will exacerbate regional and economic divisions.
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